Insurance Corporation of British Columbia

2016/17 – 2018/19
SERVICE PLAN

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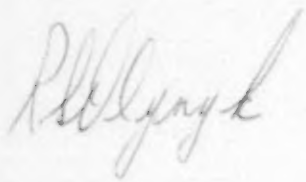
Accountability Statement

On behalf of the Board of Directors, the Executive Team and employees, I am pleased to submit ICBC's 2016/17-2018/19 Service Plan. This Service Plan was prepared under the direction of the ICBC Board of Directors in accordance with the *Budget Transparency and Accountability Act* and the B.C. Reporting Principles.

The plan is consistent with government's strategic priorities and fiscal plan, as well as with ICBC's mandate, vision and goals. The ICBC Board of Directors and management are accountable for the contents of the plan, including what has been included in the plan and how it will be reported. All significant assumptions, policy decisions, events and identified risks, as of January 21, 2016, have been considered in preparing the plan. This includes an approved change to the ICBC fiscal year so that it aligns with government's March fiscal year-end date. Unless otherwise noted, all metrics are aligned with the changes to the ICBC fiscal year.

The performance measures presented are consistent with the Taxpayer Accountability Principles, ICBC's mandate and goals, and focus on aspects critical to our performance. The targets in this plan have been determined on an assessment of ICBC's operating environment, forecast conditions, risk assessment and performance.



Ron Olynyk

Interim chair, ICBC Board of Directors

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Strategic Direction and Context

Strategic Direction

ICBC's mandate, as provided through the *Insurance Corporation Act*, *Insurance (Vehicle) Act* and the *Motor Vehicle Act*, is to provide Basic and Optional vehicle insurance for BC motorists. Our Basic rates are regulated by the British Columbia Utilities Commission (BCUC), an independent regulator. The BCUC approves our Basic insurance rates and ensures our Basic product is adequate, efficient and reasonable. We also sell Optional auto insurance in a competitive marketplace. In addition, ICBC provides driver licensing, vehicle registration and licensing, and violation ticket and government fine collections services on behalf of the Province under a Service Agreement between government and ICBC. We also implement road safety initiatives to reduce crashes and losses on B.C. roads and to assist in managing claims costs. We work closely with the Ministry to ensure financial targets and reporting requirements are met. Additional specific priority actions are provided in the 2016/17 Mandate Letter for ICBC.

We are committed to providing customers with the best insurance coverage at the lowest possible cost. To support this, Corporate Strategy focuses on four key goals: Improve Value and Service for Customers, Maintain Financial Stability, Focused Operational Excellence and Aligned People and Business Capabilities.

In alignment with government direction, ICBC has embedded the Taxpayer Accountability Principles into the Corporate Strategy. Our policies, processes and values align with the principles of cost consciousness (efficiency), accountability, appropriate compensation, service, respect and integrity.

Operating Environment

In B.C., auto insurance is based on a full tort system, which means that an at-fault driver, or vehicle owner, may be taken to court for the full amount of damages. An injured party also has access to accident benefits coverage, regardless of fault, including medical and rehabilitation expenses and wage loss. This environment may result in higher claims costs compared to other jurisdictions that operate under different auto insurance systems.

A number of risks in our operating environment could impact our future performance and our ability to execute our Corporate Strategy. Rising bodily injury claims costs continue to be key risks for auto insurers, putting pressure on rates for customers. Higher claims costs are driven by a greater frequency of bodily injury claims with a shift towards a greater proportion of complex claims, which have higher associated claims costs. Managing these costs, along with increasing legal representation rates and fraudulent claims are critical to offering customers the best insurance coverage for the lowest possible cost. Refer to the *Maintain Financial Stability* section for more information.

Natural catastrophes, volatility in investment markets and global economic uncertainty also continue to be risks to the Property and Casualty industry. Investment income has historically been a strong and consistent contributor to ICBC's financial health, helping to offset pressure of rising claims costs. In recent years, however, lower interest rates in Canada have been putting additional pressure on insurance rates across the country. In the current low-interest rate investment climate, we cannot rely upon our investment return to help offset claims cost to the same extent we did in the past.

Performance Plan

Goals, Strategies, Measures and Targets

This section sets out ICBC's goals, strategies, performance measures and targets for 2016/17-2018/19. The four goals are unchanged from the 2015-2017 Service Plan.

On January 21, 2016, the ICBC Board of Directors approved a change to the ICBC fiscal year-end so that it aligns with government's March year-end date. This means ICBC will have a 15-month transition period between January 1, 2016 and March 31, 2017. Multi-year outlooks for 2017/18 and 2018/19 are from April 1 until March 31. Unless otherwise noted, our financial targets and corporate performance metrics reflect this change.

ICBC continues to work with the Ministry to develop an evaluation plan to measure the organization's performance against the Taxpayer Accountability Principles, as well as supporting the Ministry in its development of a strategic engagement plan.

Goal 1: Improve Value and Service for Customers

ICBC is supporting government's strategic priorities of a strong economy and a secure tomorrow. Our Corporate Strategy is focused on being a low-cost and operationally excellent company that provides value to our customers by keeping rates as low as possible and delivering consistent quality service. This goal is critical to our strategy and also aligns to the Taxpayer Accountability Principles of cost consciousness and service.

Improving Value

A key part of improving value to our customers is to ***keep rates as low as possible while moderating rate fluctuations***. Basic insurance rates in B.C have experienced ongoing pressure from the number and cost of claims in recent years – with the pressure being higher than anticipated in 2015. Keeping rates as low as possible is important to ICBC and our customers, and ICBC is looking for ways to moderate increasing claims costs so that we can continue to provide the best insurance coverage at the lowest possible cost.

ICBC is working with government to identify strategies to help alleviate the pressure claims costs will continue to put on insurance rates in future years. One immediate area of increased focus is on fraud prevention. While we know the overwhelming majority of our customers make honest claims, exaggerated and fraudulent claims are an increasing area of focus for all insurers. In early 2016, ICBC will be moving forward with the adoption of a new fraud analytics tool and other initiatives, to help us detect and investigate fraud.

Smartphone usage and distracted driving-related crashes continue to add pressure on claims costs. Distracted driving is now one of the leading causes of fatal crashes in B.C. with an average of 88 deaths per year. We will continue to partner with law enforcement and government to raise awareness about the risks, consequences and penalties associated with distracted driving to reduce injury and death on B.C. roads.

Improving Service

Over the past several years we have made changes to our Claims system that will help ***improve the quality, consistency and timeliness of claims handling***. We continue to implement initiatives to improve the delivery of customer value and service, in ways that the customers have told us are most important to them. As part of these initiatives, we continue to ***increase online services*** to help reduce costs and enable the organization to operate more efficiently by increasing capacity among customer-facing staff for high-value interactions to support government's priority of a strong knowledge-based economy. Our Service Strategy aims to improve customer service by enabling us to address customer and business needs, and enables us to serve customers where they are, in ways that they value. We will explore various new customer service opportunities in the channels most relevant to customers, including digital, print and in-person.

As a key objective, ICBC will continue to have a presence in communities by providing necessary services across the Province through our facilities, and through our partners that include body shops, brokers and offices that offer driver licensing services. ICBC is also strongly committed to making investments in road safety to improve the safety of all communities in British Columbia.

Strategies

In alignment with our 2016/17 Mandate Letter, to improve value and service for customers, ICBC has developed the following key strategies:

- Keep rates as low as possible while moderating rate fluctuations.
- Improve quality, consistency and timeliness of claims handling.
- Increase online services.

Performance Measures and Targets

Maintaining our current high levels of customer satisfaction and measuring feedback is how we know if we are improving value and service for customers. ICBC measures customer service performance based on the percentage of satisfied customers for each major transaction type: insurance product purchase, driver licensing and claims. ICBC is currently developing a new performance measure on claims management savngs that will be included in future Service Plans as directed in the 2016/17 Mandate Letter.

Performance Measures	2014 Actual	2015 Forecast	2016/17 Target	2017/18 Target	2018/19 Target
Insurance Services Satisfaction	96%	93%[1]	≥95%	≥95%	n/a[3]
Driver Licensing Satisfaction	94%	94%[1]	≥95%	≥95%	n/a[3]
Claims Service Satisfaction	87%	n/a[2]	≥91%	≥91%	n/a[3]

Data Source: An independent firm is retained to conduct ongoing surveys of customers for the purposes of monitoring transactional satisfaction.

[1] The Insurance and Driver Licensing 2015 forecasts are based on August 2015 year-to-date scores.

[2] Claims customer satisfaction surveying will resume in 2016.

[3] Customer measures will be undergoing a planned refresh prior to 2018.

Discussion

ICBC will endeavour to meet or exceed these strong service measures for its Insurance Services, Driver Licensing and Claims Service to ensure customers are receiving positive experiences while interacting with ICBC.

Insurance Services Satisfaction

Independent insurance brokers process over three million policies each year. The insurance services satisfaction measure is based on surveys of approximately 5,000 customers over the course of a year.

Driver Licensing Satisfaction

Each year, ICBC conducts approximately 1.5 million transactions relating to the issuance of driver licences and driver exams, including renewing a licence, taking a knowledge test or undergoing a road test. This measure is weighted by the number of transactions for each type of service and is drawn from a sample of over 3,000 customers surveyed throughout the year.

Claims Service Satisfaction

Approximately 900,000 claims are processed each year through ICBC's Claims call centre, claims centres and specialty departments such as commercial claims and rehabilitation services. Claims Customer Satisfaction reporting was suspended at the end of May 2014, due to the delay in the delivery of customer data as we transitioned to our new Claims system. Claims service satisfaction measurement will resume in 2016.

Goal 2: Maintain Financial Stability

ICBC's approach to business is driven by creating value for customers by operating in a disciplined and focused manner. ICBC continues to strive to be a low-cost operation focusing on accountability, operational excellence and cost control.

Claims costs are the majority of ICBC's costs and can be divided into injury costs, which include bodily injury costs, and material damage costs. Severity (the average pay-out for a claim) and frequency (how many claims are made each year per a given number of policies) are the two main elements that impact claims costs. Bodily injury severity has followed an upward trend, influenced by factors such as increased legal representation, a shift toward a greater proportion of complex claims and inflationary pressures. Since late 2014, the bodily injury frequency level has been significantly higher than anticipated, and this increased level of frequency has continued through 2015.

ICBC will continue efforts to mitigate bodily injury claims severity by addressing customers' needs as early as possible and offering fair settlements on a timely basis. As improvements to claims processes and the claims system continue, staff will use enhanced tools to provide more efficient and consistent levels of service. ICBC has also been working with government to develop short and long term strategies to moderate the growth in claims costs, including tactics to proactively combat fraud.

Starting in the summer of 2015, a higher-than-anticipated increase in overall crash frequency was also observed. While material damage cost pressures are not as large as bodily injury cost pressures, they are still impacting overall claims costs. Increased driving by customers, as suggested by higher gasoline and diesel sales compared to growth in vehicles, and distracted driving could be some of the factors contributing to the higher-than-anticipated frequency. Managing the frequency trend is

challenging as it is subject to driver behavior, weather and other factors beyond ICBC's control. Material damage severity has also increased from higher labour and parts costs. As vehicles become more technologically sophisticated and parts prices are costing more with the US exchange rate, continued cost pressures can be expected.

ICBC will continue to hold controllable operating expenses flat to 2013 levels, with inflationary increases fully absorbed through 2018/19. We will achieve this by being an operationally excellent, low cost organization, with a continued focus on prudent management of administration costs, and realizing efficiencies from Transformation Program[1] investments and other initiatives.

Strategies

ICBC will continue its focus on managing the costs of bodily injury and material damage claims, fine-tuning our claims business model and developing ways to better manage and reduce the risks and growth in costs associated with claims. These include focused claims analytics, performance management and hassle-free process initiatives, which are represented in the following strategy, plus an increased focus on investigating potentially fraudulent and exaggerated claims.

- Manage increasing bodily injury and material damage claims costs.

Performance Measures and Targets

The following measures will be used to evaluate the performance of our ***maintain financial stability*** goal.

Performance Measures	2014 Actual	2015 Forecast	2016/17 Target	2017/18 Target	2018/19 Target
Minimum Capital Test (MCT)[1]	193%	155%	143%	142%	137%
Combined Ratio[2]	113.8[2]	120.9%	109.7%	106.9%	107.5%
Investment Return (Market Return)	Benchmark -0.21%	Policy market benchmark return	Policy market benchmark return	Policy market benchmark return	Policy market benchmark return

Data Source: Financial performance measures are derived from actual financial information, forecasted trends, and assumptions.

[1] MCT targets for 2016 to 2018 are estimated based on a revised Basic and Optional MCT targets and the phase-in requirement in transitioning to the new MCT Guidelines, effective January 1, 2015. These targets are on a calendar year basis and have not been recast to the fiscal year ending March 31.

[2] The combined ratio for 2014 has been restated to reflect the revenue and expense reclassification in compliance with International Financial Reporting Standards.

Discussion

Minimum Capital Test (MCT)

Minimum Capital Test is a property and casualty industry measurement set by the Office of the Superintendent of Financial Institutions. It measures the capital adequacy of an insurer to protect policyholders from financial risk and to provide long-term financial stability. It is the ratio of ICBC's capital available to capital required as calculated for specific risks, and is expressed as a percentage.

[1] The Transformation Program is our business renewal program that is replacing aging technology and putting systems and business processes in place to support the services customers expect, and to deliver future financial savings.

Special Direction IC2 requires ICBC to have a minimum of 100% minimum capital test for Basic insurance. ICBC's Basic business MCT for 2015 is expected to fall below the regulatory minimum of 100%. A $450 million capital transfer from the Optional business to the Basic business has been approved by Order-in-Council to improve Basic capital levels. The transfer occured in January 2016. The Government amended Special Direction IC2 to direct the British Columbia Utilities Commission to include the $450 million in Basic capital for 2015 rate-setting purposes. ICBC's corporate management target is now 185% for both Basic and Optional insurance, which provides an amount above the minimum requirement to reflect the corporation's risk profile and an additional amount for Basic to promote relatively stable and predictable rates (rate smoothing).

Combined Ratio

The combined ratio is a key measure of overall profitability from operations within the insurance industry determined as a ratio of all costs and expenses over premiums (excluding investment income). A ratio below 100% indicates an underwriting profit while a ratio above 100% indicates an underwriting loss. ICBC's combined ratio is typically higher than the industry average. This is partially due to the unique nature of our business model where premiums are not set to generate large underwriting profits and, together with investment income, are set to recover costs and to achieve and maintain capital targets. ICBC also delivers non-insurance services on behalf of government and these costs are reflected in the combined ratio.

Investment Return

ICBC collects premiums, which are invested to earn investment income until claims are paid. Investment income is important and is used to reduce the cost of insurance to policyholders. ICBC evaluates its performance for investment returns compared to the policy market benchmark return, which is available at the year-end reporting period. ICBC sets an investment return target equal to the policy market benchmark return.

Goal 3: Focused Operational Excellence

Providing customers with the best insurance coverage at the lowest possible cost requires us to ***operate the corporation in a low-cost manner***. This means actively controlling spend, avoiding unnecessary costs and improving our ability to deliver a consistent, quality experience and value for our customers.

To help leverage our Transformation Program investment, ICBC has introduced operating methodology to support focused Operational Excellence[2]. Through this program, we are reviewing our business processes to find and remove operational inefficiencies and build internal capacity.

In 2015, Operational Excellence tactics delivered benefit to the organization in the form of cost avoidance, revenue generation and operational efficiency. Other Operational Excellence activities have increased productivity and created value for customers. For example, improvements made to the way in which we handle changes to insurance policies has reduced, by over half, the time it takes customers to receive a refund cheque. As part of an Operational Excellence event, a change in operating protocols across the Driver Licensing offices, will generate an additional 11,000 hours of

[2] Operational Excellence is a philosophy of leadership, teamwork and problem solving that focuses on customer needs, empowering employees and optimizing existing activities so that an organization may operate more efficiently and avoid unnecessary costs.

testing time in 2015. Operational Excellence events have been undertaken in every division of the business, with a full agenda finalized for 2016/17.

Successful implementation for 2016/17–2018/19 will *focus on our ability to make continuous business improvements more efficiently*. ICBC encourages employees to be accountable for their behaviour by looking for ways to improve the quality, consistency and timeliness of our business.

Strategies

In order to have a focused operation and maintain excellence, ICBC has developed the following key strategies:

- Operate the corporation in a low-cost manner.
- Focus our ability to make continuous business improvements more efficiently.

Performance Measures and Targets

The following measure will be used to evaluate the performance of our *focused operational excellence* goal.

Performance Measure	2015 Actual	2016 Forecast	2016/17 Target	2017/18 Target	2018/19 Target
Gross Expenses (Insurance Business) per Policy[1]	345[2]	360	355	n/a	n/a

Data Source: Financial performance measures are derived from actual financial information, forecasted trends and assumptions.
[1] Operating cost targets are not planned in detail beyond the current year. These are also calculated on a calendar year basis.
[2] 2015 reflects the revenue and expense reclassifications.

Discussion

Gross Expenses (Insurance Business) per Policy measures the average cost per policy to run ICBC's insurance business. The measure is calculated as costs divided by number of Basic policies. Gross expenses include costs to service claims (staffing and external costs), administrative costs, commissions paid to brokers, premium taxes, our investment in new systems and processes and investment portfolio management fees. It excludes costs incurred to deliver non-insurance services.

Goal 4: Aligned People and Business Capabilities

Critical to achieving the Corporate Strategy is having the right people and the right business capabilities in place so that we may provide more information and services to customers online and more ways for customers to interact with us. We are working to improve customer service across the province so that we can better respond to changing needs and provide customers better service where they are and in ways that they value. We will continue to build our people capabilities through implementation of human resource initiatives, which will include leadership development and succession planning.

One of the key strategies within this goal is to ***develop accountable, aligned, enabled and motivated leaders and employees***. This strategy was used to develop ICBC's new approach to employee opinion measurement. ICBC's *Employee Opinion Survey* captures employees' opinions regarding how their work environment supports the delivery of our Corporate Strategy. Feedback gathered from each

survey help ICBC leaders better understand employees in terms of their personal motivation and individual accountability for delivering business results.

All ICBC employees are invited to participate in the full Employee Opinion Survey every two years. In alternate years, such as 2017, a shorter, "pulse check" survey is sent to a representative group of employees. This pulse check helps ICBC understand if corporate, divisional and departmental action plans are addressing the feedback provided by employees.

Another key strategy within this goal is to ***ensure we are getting business value from our investments in technology***. ICBC is in the final phase of a major business renewal program (Transformation Program) to replace aging technology and put the right systems and business processes in place to support the services customers expect and to deliver on future financial savings. Investments in new core systems and foundational capabilities will help ICBC be more efficient, provide better customer service and lower operating costs.

A majority of the Transformation Program projects are complete, including a new rating engine to calculate customers' insurance premiums and a modern integrated Claims management system to enable efficient and consistent claims handling. The Transformation Projects lays the foundation for ICBC to leverage new technology and increase use of online services so that we can be more nimble and provide stronger customer service in communities across British Columbia. A plan is in place to deliver the remaining Transformation Program projects including implementing a new policy administration system to modernize how ICBC sells and services Autoplan insurance through our broker distribution network. Our current projection has the Transformation Program completed in late 2018.

ICBC will also ***continue to work with the Ministry to support government's auto insurance priorities within the context of government's overall strategic priorities***. ICBC is also fully engaged in adopting the Employer Accountability Principles.

Strategies

To improve business capabilities and better align people, we have developed the following strategies:

- Develop accountable, aligned, enabled, and motivated leaders and employees.
- Leverage business value from technology investments.
- Align with our shareholder to support government priorities.

Performance Measures and Targets

The following measures will be used to evaluate our ***aligned people and business capabilities*** goal:

Performance Measure	2015 Actual	2016 Actual	2016/17 Target	2017/18 Target	2018/19 Target
Employee Opinion Survey - Indices:				Indices +1% to increase a minimum of 3 points	Indices +1% to increase a minimum of 3 points
Aligned	77	76	>80		
Enabled	83	83	>85		
Motivated	80	78	>80	Indices >80 to maintain >80 or increase	Indices >80 to maintain >80 or increase
Accountable	87	82	>87		
Leadership	77	n/a	>75		
Support government non-insurance priorities[2]	100%[3]	100%[3]	100%[3]	n/a	n/a

Data Source: An independent firm is retained to conduct our survey of employees.

[1] The Leadership index was only to be updated in a full survey year.

[2] Targets will be reviewed once the 2016 results are finalized and may be revised.

[3] Targets are not set beyond the current year.

[4] As identified in the 2016 Government Letter of Expectation.

[5] As identified in the 2015/16 Minister Letter for ICBC.

[6] As identified in the 2016/17 Minister Letter for ICBC.

Discussion

Employee Opinion Survey
The employee opinion survey was provided to a represented group of employees (30%). A full survey will be conducted again in September 2016.

2016 Government Non-insurance Priorities
The goal for 2016/17 is to continuously strive to fully support government towards completion for the non-insurance priorities referenced in the 2016/17 Minister Letter for ICBC.

Financial Plan

Summary Financial Outlook

$ millions[1]	2014 Actual	2015 Forecast	2016/17 Budget[2]	2017/18 Budget	2018/19 Budget
Premiums earned	4,159	4,448	6,022	5,123	5,343
Service fees and other	88	94	123	99	99
Total earned revenue	4,247	4,542	6,145	5,222	5,442
Provision for claims occurring in the current year	3,379	3,819	5,024	4,131	4,364
Changes in estimates for losses occurring in prior years	181	259	(24)	(22)	(26)
Net claims incurred	3,560	4,078	5,000	4,109	4,338
Claims services	284	271	363	283	282
Road safety & loss management services	51	50	61	49	49
Claims and claims related costs	3,895	4,399	5,424	4,441	4,669
Operating costs insurance	219	217	291	240	241
Transformation program	24	27	36	32	30
Premium taxes & commissions - insurance	468	604	688	624	663
Total expenses	4,606	5,247	6,439	5,337	5,603
Underwriting loss	(359)	(705)	(294)	(115)	(161)
Investment income	852	933	444	394	423
Restructuring	-	-	-	-	-
Income – insurance operations	493	228	150	279	262
Non-insurance operations					
Operating costs – non-insurance	98	99	130	105	105
Commissions – non-insurance	28	30	39	32	33
Other income – non-insurance	(5)	(6)	(8)	(6)	(6)
Loss – non-insurance operations	121	123	161	131	132
Net income	372	105	(11)	148	130
Other comprehensive income					
Pension and post-retirement benefits remeasurements	(81)	(30)	-	-	-
Net change in available for sale financial assets	(179)	(481)	63	30	16
	(260)	(511)	63	30	16
Total comprehensive income	$112	$(406)	$52	$178	$146
Total equity – beginning of year	3,642	3,616	3,085	2,987	3,015
Transfer of excess Optional capital to the Government of British Columbia	(138)	(125)	(150)	(150)	(150)
Total equity – end of year	3,616	3,085	2,987	3,015	3,011
Represented by:					
Retained earnings – end of year	3,379	3,359	3,198	3,196	3,176
Other components of equity	237	(274)	(211)	(181)	(165)
Total equity – end of year	3,616	3,085	2,987	3,015	3,011
Capital expenditures[3]	81	94	119	40	40
Total liabilities	12,267	13,600	14,500	15,200	16,000

Notes

[1] Financial information for all years was prepared based on International Financial Reporting Standards (IFRS).

[2] To align with the Government fiscal year, ICBC has changed to a March 31 fiscal year end effective immediately after the end of the December 31, 2015 calendar year. Figures for 2016/17 reflect a transitional 15 month fiscal period starting January 1, 2016 and ending March 31, 2017.

[3] Major categories of capital expenditure include: facilities (land, building and leasehold), furniture and equipment, IT systems (computer equipment and software). Looking ahead, ICBC expects capital expenditures will change in the planning period as the company maintains or replaces aging infrastructure, including replacement or upgrade of facilities, and as critical business systems are renewed.

Key Forecast Assumptions

Financial forecasts take into consideration ICBC's p. ns to address the key strategic issues and risks facing the organization and changes in the external environment. Typical of other property and casualty insurance companies, ICBC has both financial and non-financial risks. Within the next three years, ICBC will continue to address specific material corporate risks. This includes continuing to evaluate and strengthen our information security system controls to protect against cybersecurity incidents (such as inappropriate access to systems or data and/or inappropriate disclosure of personal information) and continuing to renew our core operational systems as part of our evolving business model. Leadership development and succession planning also continues to support our business model. Finally, like other B.C. Crown corporations, in response to the Auditor General report, ICBC will ensure we have the appropriate business continuity plans for earthquake preparedness should this crisis scenario materialize in the near future. Based on these plans, assumptions were developed (see below) and used to develop the financial forecasts on page 14.

- The summary financial outlook is based on the status quo business model and the company's expected investment in the renewal of existing systems.
- These results reflect the overall operations of the business, including Basic and Optional insurance and non-insurance activities.
- For the 2016/17 – 2018/19 period, rate changes are assumed for both the Basic and Optional insurance businesses. Any proposed changes to Basic insurance rates are subject to BCUC regulatory approval.
- Investment income, as shown, includes the expected interest, dividends, and other income and realized gains/losses from the investment portfolio.
- Claims incurred reflect current claims trends, vehicle population growth and inflation.
- Prior years' claims reflect changes in the discounted value of unpaid claims.
- 2015 forecast includes the 2015 pension and post-retirement actuarial loss.
- The transfer of Optional capital to the Government of British Columbia is based on legislation and/or regulation.
- Changes in unrealized gains and losses continue to impact Other Components of Equity (OCE) in 2015 – 2018/19 until proposed changes in the accounting standard are in effect.
- The amount of Driver Penalty Point premiums and/or Driver Risk Premiums included in the summary outlook is based on current estimates.

Sensitivities Analysis

Premiums

- 1% fluctuation means $44 - $53 million in net premiums.

Claims

- 1% fluctuation means $38 - $43 million in claims costs.
- 1% fluctuation in the unpaid claims balance means $82 - $109 million in claims costs.
- 1% fluctuation in the rate used to discount claims means approximately $210 million in claims costs.

Investments

- 1% fluctuation in return means $141 - $169 million in investment income.
- 1% change in investment balance means $4 - $5 million in investment income.

Market Share

- 1% change in market share represents a $6 - $8 million impact on net income.

Management Perspective on Future Financial Outlook

The net income for 2015 forecast is $105 million, as compared to the 2014 actual of $372 million. The decrease in net income is primarily due to higher claims costs. Higher claims costs are driven by a greater frequency of bodily injury claims and a shift within legally represented claims towards a greater proportion of complex claims, which have higher associated claims costs. There has also been an increase in crash frequency and the average cost of material damage (higher labour and material costs). These observed trends are expected to continue and impact the forecast period.
ICBC continues ongoing efforts to identify and moderate the drivers of higher claims costs within its control. In addition to initiatives undertaken as part of Claims Transformation, ICBC, with the support of government staff, is developing short and long-term strategies to help moderate increases in claims costs and the impact of higher claims costs on future Basic rates. ICBC's initiatives focus on enhanced employee training for injury claims handling, improved management and handling of litigated files and also initiatives to improve our claims data analytics.

The budgets for 2016/17 – 2018/19 are based on ICBC's status quo business model and reflect current expectations of claims costs trends and investment market conditions. As a result of these observations, claims costs are expected to be higher than in previous years based on longer term claims cost trends. As bodily injury continues to be the major driver of claims cost increases, there are a number of additional observed emerging trends, as identified above, that are factoring into the claims forecast. The bodily injury severity trend has remained at a constant rate due to the ongoing focus of managing the bodily injury costs and the mix of claims. The decrease in bodily injury frequency did not emerge as anticipated thus providing no offset to the increase in the average cost of a claim in the forecast period. To provide some offset to the higher claims costs, the aforementioned

claims strategies and initiative impacts have been built into the claims forecast. While material damage cost pressures are not as large as bodily injury cost pressures, they are still impacting overall claims costs.

Capital Plan and Major Projects

Major Capital Projects[1] $ millions	Targeted Completion Date (Year)	Approved Anticipated Total Cost of Project ($millions)	Projected Cost to Dec 31, 2015
Transformation Program ICBC's modernization of the company through the Transformation Program is in the final year of this eight-year program and most of the projects have been completed. The largest of these remaining projects is the Insurance Sales and Administration System (ISAS) project, which is the new policy administration, vehicle licensing and registration system for brokers. To mitigate any risks associated with not completing the Transformation Program, a comprehensive governance model with a strict approval process that provides oversight on scope, timelines, and budget. ICBC's internal and external oversight bodies (for example, Board of Directors, Executive Committee, a third-party independent risk advisor to the Board) ensure decisions align to corporate strategy to support the business transformation underway and other corporate projects.	2016	318	269

Notes

[1] This table reflects projects with capital expenditures over $50 million. The capital expenditures in this table are a subset of the capital expenditures reported in the Summary Financial Outlook on page 14.

Appendices

Appendix A: Hyperlinks to Additional Information

Organizational Overview

For an organizational overview of ICBC, please visit our website at www.icbc.com/about-icbc.

Corporate Governance

ICBC's governance is defined through legislation applicable to all Crown corporations, and legislation specific to the company itself.

The Board of Directors guides ICBC in fulfilling its mandate and sets our corporate direction. The Board, with input from the Executive Team, approves our vision and values that guide us, and the goals and strategies upon which accountability and performance are evaluated. Information on the role and membership of the Board members and Board committees is available on our website, www.icbc.com/about-icbc/company-info/Pages/Corporate-governance.aspx. Also available via this link is information regarding ICBC's Executive Committee and Governance Principles.

ICBC's Board complies with the *Board Resourcing and Development Office Guidelines* (http://www.brdo.gov.bc.ca/governance/corporateguidelines.pdf).

Appendix B: Subsidiaries and Operating Segments

Operating Subsidiaries

A portion of ICBC's investment portfolio is held in real estate. ICBC holds all but one of its investment properties in fully-owned nominee holding companies. ICBC does not have any active operating subsidiary companies.

Operating Segments

Summary Financial Outlook Table

Operating Costs by Nature $ millions	**2014[1] Actual**	**2015 Forecast**	**2016 Budget[2]**	**2017 Budget[2]**	**2018 Budget[2]**
Premium taxes and commissions expense	$532	$564	$605	$636	$659
Premium deficiency adjustments (DPAC)	(36)	70	(40)	11	30
Compensation and other employee benefits	375	346	378	708	706
Pension and post-retirement benefits	58	76	83		
Professional and other services	45	40	33		
Road improvements and other traffic safety programs	32	33	36		
Building operating expenses	30	28	29		
Merchant and bank fees	34	37	40		
Office supplies and postage	20	20	21		
Computer costs	31	26	28		
Depreciation and amortization	37	37	43		
Other expenses (recoveries/income)	13	21	12		
Total operating costs before additional items	1,171	1,298	1,268	1,355	1,395
Non-recurring expenses – restructuring costs	-	-	-	-	-
Total operating costs	$1,171	$1,298	$1,268	$1,355	$1,395

Notes

[1] In both tables on this page, 2014 Actual costs are restated for the revenue and expense reclassifications

[2] Operating cost targets are not planned in detail beyond the current year. As detailed costs are not available, these years are on a calendar year base and have not been recast to the fiscal year ending March 31.

Appendix C: Corporate Strategy Summary

Goals	Strategies	Measures	Forecast	Targets		
			2015	2016/17	2017/18	2018/19
Improve Value and Service for Customers	Keep rates as low as possible while moderating rate fluctuations Improve quality, consistency and timeliness of claims handling Increase online services	Insurance Services Satisfaction	93%	≥95%	≥95%	n/a[1]
		Driver Licensing Satisfaction	94%	≥95%	≥95%	n/a[1]
		Claims Service Satisfaction	n/a[1]	≥91%	≥91%	n/a[2]
Maintain Financial Stability	Manage increasing bodily injury and material damage claims costs	Minimal Capital Test (MCT)[3]	155%	143%	142%	137%
		Combined Ratio	120.9%	109.7%	106.9%	107.5%
		Investment Return	policy market benchmark return	policy market benchmark return	policy market benchmark return	policy market benchmark return
Focused Operational Excellence	Operate the corporation in a low-cost manner Focus our ability to make continuous business improvements more efficiently	Gross Expenses (Insurance Business) per Policy	345	365	n/a	n/a
Aligned People and Business Capabilities	Develop accountable, aligned, enabled and motivated leaders and employees Leverage business value from technology investments Align with our shareholder to support government priorities	Employee Opinion Survey Indices:			Indices ≤79 to increase a minimum of 3 points	Indices ≤79 to increase a minimum of 3 points
		Aligned	76	≥80		
		Enabled	63	≥66		
		Motivated	59	≥63	Indices ≥80 to maintain ≥80 or increase	Indices ≥80 to maintain ≥80 or increase
		Accountable	82	≥87		
		Leadership	n/a	≥70		
		Support government non-insurance priorities[4]	100%	100%	n/a	n/a

Notes

[1] Claims customer satisfaction surveying will resume in 2016.

[2] Customer measures will be undergoing a planned refresh prior to 2018.

[3] MCT targets are on a calendar year base and have not been recast to the fiscal year ending March 31.

[4] Targets are not planned in detail beyond the current year.